



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

NEWS RELEASE

FOR RELEASE November 20, 2002

Contact: Andy Nielsen
515/281-5515

Auditor of State Richard Johnson today released an audit report on the City of Springville, Iowa.

Johnson reported that the City's receipts totaled \$638,695 for the year ended June 30, 2002. The receipts included \$172,567 in property tax, \$25,956 in local option sales tax, \$104,119 from the state and \$17,079 in interest on investments.

Disbursements for the year totaled \$680,045, and included \$99,440 for community protection, \$110,492 for human development, \$393,017 for home and community environment and \$77,096 for policy and administration.

This report contains recommendations to the City Council and other City officials. For example, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City has responded that operating procedures will be reviewed.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.

###

CITY OF SPRINGVILLE
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2002

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5
Financial Statements:	<u>Exhibit</u>	
Combined Statement of Cash Transactions – All Fund Types	A	8-9
Comparison of Receipts, Disbursements and Changes in Balances – Actual to Budget	B	11
Statement of Indebtedness	C	12-13
Notes to Financial Statements		14-17
Supplemental Information:	<u>Schedule</u>	
Combining and Individual Schedules of Cash Transactions:		
General Fund	1	19-21
Special Revenue Funds	2	22-25
Debt Service Fund	3	26
Enterprise Funds	4	28-31
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		33-34
Schedule of Findings		35-38
Staff		39

City of Springville

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2002)		
William D. Cooper	Mayor	Jan 2002
James Anderson	Mayor Pro tem	Jan 2002
Rick Heeren (Appointed)	Council Member	Nov 2001
Deb Vaughn (Appointed)	Council Member	Nov 2001
Rick Mysak	Council Member	Jan 2002
Neal Caraway	Council Member	Jan 2004
Cynthia K. Stimson	City Clerk/Treasurer	Jan 2002
Susan Oler	Deputy Clerk	Jan 2002
Jeff Taylor	City Attorney	Indefinite
(After January 2002)		
William D. Cooper	Mayor	Jan 2006
Neal Caraway	Mayor Pro tem	Jan 2004
Jeff Grimley	Council Member	Jan 2004
Rick Heeren	Council Member	Jan 2004
Deb Vaughn	Council Member	Jan 2006
J. Alan Woods	Council Member	Jan 2006
Cynthia K. Stimson	City Clerk/Treasurer	Jan 2004
Susan Oler	Deputy Clerk	Jan 2004
Jeff Taylor	City Attorney	Indefinite

City of Springville



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Springville, Iowa, as of and for the year ended June 30, 2002. These financial statements are the responsibility of the City of Springville's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2001, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Springville as of and for the year ended June 30, 2002, and its indebtedness at June 30, 2002, on the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2002 on our consideration of the City of Springville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The supplemental information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 13, 2002

City of Springville

Financial Statements

City of Springville
 Combined Statement of Cash Transactions
 All Fund Types
 Year ended June 30, 2002

	Governmental Fund	
	General	Special Revenue
Receipts:		
Property tax	\$ 163,457	-
Other city tax	7,095	25,956
Licenses and permits	3,645	-
Use of money and property	5,664	367
Intergovernmental	34,699	87,386
Charges for service	3,475	-
Miscellaneous	62,388	20,161
Total receipts	<u>280,423</u>	<u>133,870</u>
Disbursements:		
Community Protection Program	67,390	15,918
Human Development Program	64,409	-
Home and Community Environment Program	61,426	60,646
Policy and Administration Program	77,096	-
Total disbursements	<u>270,321</u>	<u>76,564</u>
Excess (deficiency) of receipts over (under) disbursements	<u>10,102</u>	<u>57,306</u>
Other financing sources (uses):		
Sale of general fixed assets	3,156	-
Operating transfers in	5,115	-
Operating transfers out	(65,826)	(115)
Total other financing sources (uses)	<u>(57,555)</u>	<u>(115)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(47,453)	57,191
Balance beginning of year	<u>239,732</u>	<u>25,357</u>
Balance end of year	<u>\$ 192,279</u>	<u>82,548</u>

See notes to financial statements.

<u>Types</u>	<u>Proprietary</u>	<u>Total</u>
<u>Debt</u>	<u>Fund Type</u>	<u>(Memorandum</u>
<u>Service</u>	<u>Enterprise</u>	<u>Only)</u>
9,110	-	172,567
395	-	33,446
-	-	3,645
-	14,939	20,970
-	-	122,085
-	199,958	203,433
-	-	82,549
<u>9,505</u>	<u>214,897</u>	<u>638,695</u>
16,132	-	99,440
46,083	-	110,492
95,983	174,962	393,017
-	-	77,096
<u>158,198</u>	<u>174,962</u>	<u>680,045</u>
<u>(148,693)</u>	<u>39,935</u>	<u>(41,350)</u>
-	-	3,156
148,725	-	153,840
-	(87,899)	(153,840)
<u>148,725</u>	<u>(87,899)</u>	<u>3,156</u>
32	(47,964)	(38,194)
152	283,543	548,784
<u>184</u>	<u>235,579</u>	<u>510,590</u>

City of Springville

City of Springville

Comparison of Receipts, Disbursements and Changes in Balances -

Actual to Budget

Year ended June 30, 2002

	Actual	Less Funds Not Required to be Budgeted	Net	Amended Budget	Variance Favorable (Unfavorable)	Net as % of Amended Budget
Receipts:						
Property tax	\$ 172,567	-	172,567	173,254	(687)	100%
Other city tax	33,446	-	33,446	6,430	27,016	520%
Licenses and permits	3,645	-	3,645	4,200	(555)	87%
Use of money and property	20,970	251	20,719	27,930	(7,211)	74%
Intergovernmental	122,085	-	122,085	171,243	(49,158)	71%
Charges for service	203,433	-	203,433	219,000	(15,567)	93%
Miscellaneous	82,549	20,161	62,388	51,000	11,388	122%
Total receipts	<u>638,695</u>	<u>20,412</u>	<u>618,283</u>	<u>653,057</u>	<u>(34,774)</u>	<u>95%</u>
Disbursements:						
Community Protection Program	99,440	15,918	83,522	87,298	3,776	96%
Human Development Program	110,492	-	110,492	117,067	6,575	94%
Home and Community Environment Program	393,017	-	393,017	620,884	227,867	63%
Policy and Administration	77,096	-	77,096	89,500	12,404	86%
Total disbursements	<u>680,045</u>	<u>15,918</u>	<u>664,127</u>	<u>914,749</u>	<u>250,622</u>	<u>73%</u>
Excess (deficiency) of receipts over (under) disbursements	(41,350)	4,494	(45,844)	(261,692)		
Other financing sources, net	<u>3,156</u>	-	<u>3,156</u>	-		
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(38,194)	4,494	(42,688)	(261,692)		
Balance beginning of year	<u>548,784</u>	<u>12,863</u>	<u>535,921</u>	<u>589,126</u>		
Balance end of year	<u>\$ 510,590</u>	<u>17,357</u>	<u>493,233</u>	<u>327,434</u>		

See notes to financial statements.

City of Springville
Statement of Indebtedness
Year ended June 30, 2002

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation note: Water (note 3)	Mar 1, 1996	5.15%	\$ 275,000
Farmers Home Administration bond: Sewer (note 4)	Dec 3, 1985	5.00%	\$ 403,500
Loans:			
Fire Truck	Sep 21, 1998	5.75%	\$ 40,000
Land (note 5)	Jul 14, 2000	7.50	80,000
Total			

See notes to financial statements.

Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid
156,795	28,268	128,527	7,716
280,208	46,029	234,179	13,970
15,255	15,255	-	877
80,000	40,000	40,000	6,083
\$ 95,255	55,255	40,000	6,960

City of Springville

Notes to Financial Statements

June 30, 2002

(1) Summary of Significant Accounting Policies

The City of Springville is a political subdivision of the State of Iowa located in Linn County. It was first incorporated in 1881 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Springville has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Blended Component Unit

The Friends of the Springville Fire Department is legally separate from the City but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the Special Revenue Fund. Although the Friends of the Springville Fire Department is legally separate from the City, its purpose is to benefit the City of Springville (the primary government) by soliciting contributions and managing those funds

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Linn County Assessor's Conference Board, Linn County Emergency Management Commission, and Linn County Joint E911 Service Board.

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund - The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid through other funds.

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund - The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and other long-term debt.

Proprietary Funds

Enterprise Funds - The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

The City of Springville maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the blended component unit. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon four major classes of disbursements, known as programs, not by fund. These four programs are community protection, human development, home and community environment and policy and administration.

E. Total (Memorandum Only)

The total column on the combined statement of cash transactions is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2002 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

(3) General Obligation Water Note

On February 26, 1996, the City issued a general obligation water note pursuant to a loan agreement dated March 1, 1996 for \$275,000 to provide funds to pay the cost of the construction, reconstruction, improvement, extension and equipping of the Municipal Waterworks System. The repayment terms require 19 equal semi-annual installments of \$17,992, including 5.15% per annum interest, beginning December 1, 1996 and one final installment on June 1, 2006 of all remaining principal and interest. The balance at June 30, 2002 was \$128,527.

(4) Farmers Home Administration Bond

A resolution providing for the issuance of a \$403,500 sewer revenue bond purchased by the Farmers Home Administration includes the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity.
- (b) The City shall make minimum annual payments of \$23,924, including 5% per annum interest, to Farmers Home Administration in the years 1988 through 2025 inclusive.
- (c) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account for the purpose of making the above payment when due.
- (d) Additional monthly transfers of \$200 shall be made to a sewer reserve account until the sum of \$24,000 has been accumulated. This account is restricted for the purpose of transferring to the sewer revenue bond sinking account to prevent default on principal and interest payments.

(5) Bank Loan

On July 14, 2000, the City entered into a loan agreement with a local bank for \$80,000 to provide funds to purchase land. The repayment terms require two equal annual installments of \$40,000 beginning July 14, 2001, plus 7.5% per annum interest. The balance at June 30, 2002 was \$40,000.

(6) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2002 was \$7,697, equal to the required contribution for that year.

(7) Compensated Absences

City employees accumulate vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate maximum liability for unrecognized accrued employee benefits at June 30, 2002, primarily relating to the General Fund, is \$3,300. This liability has been computed based on rates of pay in effect at June 30, 2002.

(8) Risk Management

The City of Springville is exposed to various risks related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks did not exceed commercial insurance coverage in the year ended June 30, 2002.

(9) Interfund Loan

On October 20, 1997, the General Fund loaned \$50,000 to the Enterprise Fund, Water Account for a water tower painting project. The loan is interest free and will be repaid over a ten-year period. During the year ended June 30, 2002, \$5,000 was repaid, leaving a balance of \$30,000. The balance will be paid in six equal installments over the next six fiscal years.

(10) Deficit Balance

The Enterprise Fund, Sewer Rental Account had a deficit balance of \$37,366 at June 30, 2002. The deficit balance was a result of sewer line cleaning and televising. The deficit will be eliminated by a transfer from the Enterprise Fund, Sewer Replacement account.

(11) Commitment for Fire Vehicle Purchase

On May 6, 2002, the City accepted a bid of \$199,845 for a new fire vehicle. The cost of the vehicle is to be shared with Brown Township, which will pay 50% of the total cost. The City will use available local sources and a bank loan to pay its share of the cost.

(12) Pending Litigation

The City is a defendant in a lawsuit. The probability and amount of loss, if any, is undeterminable.

Supplemental Information

City of Springville
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Receipts:	
Property tax	\$ 163,457
Other city tax:	
Utility tax replacement excise tax	<u>7,095</u>
Licenses and permits:	
Liquor	980
Building	<u>2,665</u>
	<u>3,645</u>
Use of money and property:	
Interest on investments	4,773
Rent	<u>891</u>
	<u>5,664</u>
Intergovernmental:	
State allocation	12,418
Bank franchise tax	3,433
County library allocation	7,775
Township fire contribution	9,526
Enrich Iowa	882
Linn County veteran grave care	<u>665</u>
	<u>34,699</u>
Charges for service:	
Grave digging	<u>3,475</u>
Miscellaneous:	
Fines and fees	474
Library donations	51,942
Fire donations	620
Sale of cemetery lots	2,450
Refunds and reimbursements	2,274
Tree grant	2,675
Miscellaneous	<u>1,953</u>
	<u>62,388</u>
Total receipts	<u>280,423</u>
Disbursements:	
Community Protection Program:	
Police:	
Law enforcement agreement	<u>19,760</u>
Fire:	
Personal services	1,800
Contractual services	20,038
Commodities	6,543
Capital outlay	<u>6,359</u>
	<u>34,740</u>

Schedule 1

City of Springville
Schedule of Cash Transactions
General Fund
Year ended June 30, 2002

Disbursements (continued):	
Community Protection Program:	
Street lighting	<u>12,890</u>
	<u>67,390</u>
Human Development Program:	
Animal control	<u>77</u>
Community Center:	
Contractual service	<u>6,064</u>
Parks:	
Contractual service	6,806
Commodities	2,633
Capital outlay	<u>16,703</u>
	<u>26,142</u>
Library:	
Personal service	12,157
Contractual services	2,165
Commodities	648
Capital outlay	<u>17,156</u>
	<u>32,126</u>
	<u>64,409</u>
Home and Community Environment Program:	
Cemetery:	
Personal service	1,884
Contractual service	6,600
Commodities	<u>760</u>
	<u>9,244</u>
Capital equipment	<u>7,607</u>
Streets:	
Commodities	1,686
Capital outlay	<u>39,413</u>
	<u>41,099</u>
Solid Waste:	
Contractual service	<u>806</u>
Trees forever	<u>2,670</u>
	<u>44,575</u>
	<u>61,426</u>
Policy and Administration Program:	
Mayor and Council:	
Personal services	<u>6,963</u>

City of Springville
 Schedule of Cash Transactions
 General Fund
 Year ended June 30, 2002

Policy and Administration Program:	
City Clerk:	
Personal services	24,168
Contractual services	1,200
	<u>25,368</u>
Elections	<u>1,745</u>
Insurance	<u>10,363</u>
Legal services	<u>4,162</u>
Planning and Zoning	<u>2,780</u>
Administrative:	
Contractual services	11,121
Commodities	8,914
Capital outlay	1,612
	<u>21,647</u>
City Hall:	
Contractual services	3,957
Commodities	111
	<u>4,068</u>
	<u>77,096</u>
Total disbursements	<u>270,321</u>
Excess of receipts over disbursements	<u>10,102</u>
Other financing sources (uses):	
Sale of general fixed assets	3,156
Operating transfers in (out):	
Special Revenue:	
Road Use Tax	115
Debt Service	(65,826)
Enterprise:	
Water	5,000
Total other financing sources (uses)	<u>(57,555)</u>
Deficiency of receipts and other financing sources under disbursements and other financing uses	(47,453)
Balance beginning of year	<u>239,732</u>
Balance end of year	<u>\$ 192,279</u>

See accompanying independent auditor's report.

City of Springville
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	Road Use Tax
Receipts:	
Other City tax:	
Local option sales tax	\$ -
Use of money and property:	
Interest on investments	116
Intergovernmental:	
Road use tax allocation	87,386
Miscellaneous:	
Donations and fund raisers	-
Total receipts	87,502
Disbursements:	
Community Protection Program:	
Friends of the Springville Fire Department:	
Commodities	-
Capital outlay	-
	-
Home and Community Environment Program:	
Street maintenance:	
Personal services	12,824
Contractual services	5,870
Commodities	16,737
Capital outlay	25,215
	60,646
Total disbursements	60,646
Excess of receipts over disbursements	26,856

Local Option Sales Tax	Friends of the Springville Fire Department	Total
25,956	-	25,956
-	251	367
-	-	87,386
-	20,161	20,161
<u>25,956</u>	<u>20,412</u>	<u>133,870</u>
-	11,358	11,358
-	4,560	4,560
-	<u>15,918</u>	<u>15,918</u>
-	-	12,824
-	-	5,870
-	-	16,737
-	-	25,215
-	-	<u>60,646</u>
-	<u>15,918</u>	<u>76,564</u>
25,956	4,494	57,306

City of Springville
Combining Schedule of Cash Transactions
Special Revenue Funds
Year ended June 30, 2002

	<u>Road Use Tax</u>
Other financing uses:	
Operating transfers out:	
General	<u>(115)</u>
Excess of receipts over disbursements and other financing uses	26,741
Balance beginning of year	<u>12,494</u>
Balance end of year	<u>\$ 39,235</u>

See accompanying independent auditor's report.

<u>Local Option Sales Tax</u>	<u>Friends of the Springville Fire Department</u>	<u>Total</u>
-	-	(115)
25,956	4,494	57,191
-	12,863	25,357
<u>25,956</u>	<u>17,357</u>	<u>82,548</u>

Schedule 3

City of Springville
Schedule of Cash Transactions
Debt Service Fund
Year ended June 30, 2002

Receipts:	
Property tax	\$ 9,110
Other city tax:	
Utility tax replacement excise tax	395
Total receipts	<u>9,505</u>
Disbursements:	
Community Protection Program:	
Debt service:	
Principal redemption	15,255
Interest payments	877
	<u>16,132</u>
Human Development Program:	
Debt Service:	
Principal redemption	40,000
Interest payments	6,083
	<u>46,083</u>
Home and Community Environment Program:	
Contractual service	
Debt service:	
Principal redemption	74,297
Interest payments	21,686
	<u>95,983</u>
Total disbursements	<u>158,198</u>
Deficiency of receipts under disbursements	<u>(148,693)</u>
Other financing sources:	
Operating transfers in:	
General	65,826
Enterprise:	
Water	22,899
Sewer Rental	36,000
Sewer Revenue Bond Sinking	24,000
Total other financing sources	<u>148,725</u>
Excess of receipts and other financing sources over disbursements	32
Balance beginning of year	<u>152</u>
Balance end of year	<u>\$ 184</u>

See accompanying independent auditor's report.

City of Springville

City of Springville
Combining Schedule of Cash Transactions
Enterprise Funds
Year ended June 30, 2002

	Water	Sewer Rental
Receipts:		
Use of money and property:		
Interest on investments	\$ 314	11,625
Rent	3,000	-
	3,314	11,625
Charges for service:		
Sale of water	97,521	-
Installations and connections	600	550
Recycling fees	-	-
Sewer rental fees	-	63,565
Sales tax collected	4,908	234
Penalty	2,910	-
Miscellaneous	170	-
	106,109	64,349
Total receipts	109,423	75,974
Disbursements:		
Home and Community Environment Program:		
Personal services	37,620	40,780
Contractual services	13,543	8,161
Commodities	10,251	3,064
Capital outlay	4,292	36,615
Total disbursements	65,706	88,620
Excess (deficiency) of receipts over (under) disbursements	43,717	(12,646)

Sewer Revenue				
Bond Sinking	Sewer Reserve	Sewer Replacement	Recycling	Total
-	-	-	-	11,939
-	-	-	-	3,000
-	-	-	-	14,939
-	-	-	-	97,521
-	-	-	-	1,150
-	-	-	21,290	21,290
-	-	8,210	-	71,775
-	-	-	-	5,142
-	-	-	-	2,910
-	-	-	-	170
-	-	8,210	21,290	199,958
-	-	8,210	21,290	214,897
-	-	-	-	78,400
-	-	-	20,296	42,000
-	-	-	340	13,655
-	-	-	-	40,907
-	-	-	20,636	174,962
-	-	8,210	654	39,935

City of Springville
Schedule of Cash Transactions
Trust Fund
Year ended June 30, 2002

	Water	Sewer Rental
Other financing sources (uses):		
Operating transfers in (out):		
General	(5,000)	-
Debt service	(22,899)	(36,000)
Enterprise:		
Sewer Rental	-	-
Sewer Revenue Bond Sinking	-	(24,000)
Total other financing sources (uses)	(27,899)	(60,000)
 Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	 15,818	 (72,646)
 Balance beginning of year	 66,972	 35,280
 Balance end of year	 \$ 82,790	 (37,366)

See accompanying independent auditor's report.

Sewer Revenue				
Bond Sinking	Sewer Reserve	Sewer Replacement	Recycling	Total
-	-	-	-	(5,000)
(24,000)	-	-	-	(82,899)
24,000	-	-	-	24,000
-	-	-	-	(24,000)
-	-	-	-	(87,899)
-	-	8,210	654	(47,964)
24,000	24,000	131,360	1,931	283,543
24,000	24,000	139,570	2,585	235,579

City of Springville



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

Richard D. Johnson, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Warren G. Jenkins, CPA
Chief Deputy Auditor of State

**Independent Auditor's Report on Compliance
and on Internal Control over Financial Reporting**

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Springville, Iowa, as of and for the year ended June 30, 2002, and have issued our report thereon dated September 13, 2002. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2001.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Springville's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City of Springville's operations for the year ended June 30, 2002 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior audit statutory comments have been resolved, except for item (10).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Springville's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Springville's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that reportable condition (A) described above is a material weakness. Prior audit reportable conditions have been resolved except for item (A).

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Springville and other parties to whom the City of Springville may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Springville during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

RICHARD D. JOHNSON, CPA
Auditor of State

WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

September 13, 2002

City of Springville
Schedule of Findings
Year ended June 30, 2002

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

(A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. One person had control over each of the following areas for the City:

- (1) Cash - preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
- (2) Investments - detailed record keeping, custody of investments and reconciling earnings.
- (3) Receipts - collecting, depositing, journalizing and posting.
- (4) Utility receipts - billing, collecting, depositing, posting and reconciling.
- (5) Disbursements - purchasing, check signing, recording and reconciling.
- (6) Payroll - preparing and distributing.
- (7) Information system (computer usage) - performing all general accounting functions and controlling all data input and output.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - Discussions will be conducted and control procedures developed to insure that pertinent and germane financial information and reports are regularly reviewed and verified, dated, and signed by the Mayor or his designee.

Conclusion - Response accepted.

(B) Information System - During our review of internal control, the existing control activities in the City's computer-based systems were evaluated in order to determine that activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. The following weaknesses in the City's computer-based systems were noted:

City of Springville

Schedule of Findings

Year ended June 30, 2002

The City does not have written policies for:

- requiring password changes because software does not require the user to change logins/passwords periodically or to maintain password privacy.
- usage of the Internet.
- disaster recover plan.
- alternative power sources.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over its information system.

Response - The City is currently in the process of initiating and up-dating a written policy and procedures manual for both the City Clerk's office and the sewer, street and water departments. We will draft written policies to include password changes, usage of the internet, disaster recovery plan, and alternative power sources for the computer system.

Conclusion - Response accepted.

City of Springville

Schedule of Findings

Year ended June 30, 2002

Other Findings Related to Required Statutory Reporting:

- (1) Official Depositories - A resolution naming the official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2002.
- (2) Certified Budget - Disbursements during the year ended June 30, 2002 did not exceed the amounts budgeted.
- (3) Questionable Disbursements - No disbursements that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (4) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions - No business transactions between the City and City officials or employees were noted.
- (6) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- (7) Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (9) Farmers Home Administration Sewer Bonds - The Enterprise Fund - Sewer Rental account has a deficit balance of \$37,366 at June 30, 2002. This appears to be a net earnings violation as defined by section 5 of Resolution No. 28-85.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this account to a sound financial position as required by Resolution No. 28-85.

Response - Prior to the audit the Council had passed an ordinance to raise the sewer rates. The Council will discuss the potential net earnings violation and take action to eliminate this deficit. There are available funds in the sewer replacement account to cover costs of the televising project that put the sewer rental account into a deficit balance position.

Conclusion - Response accepted.

City of Springville

Schedule of Findings

Year ended June 30, 2002

- (10) Recycling Service Utility Rate - Although the City has established an ordinance for the collection of recyclables, the ordinance allows rates to be changed by resolution of the City Council. Chapter 384.84 of the Code of Iowa requires that utility rates be established by ordinance of the City Council.

Recommendation - The City should establish recycling service rates by ordinance as required.

Response - Individual Council members will be apprised of the situation and the issue will be voted on to adopt as an ordinance at a regularly scheduled council meeting. If adopted, this change will be sent to Iowa Codification to be included in our code update.

Conclusion - Response accepted.

City of Springville

Staff

This audit was performed by:

Steven M. Nottger, CPA, Manager
John G. Vanis, CGFM, Senior Auditor
Heather L. Templeton, Assistant Auditor

Andrew E. Nielsen, CPA
Deputy Auditor of State